Introduction

Financial institutions in emerging markets are generally far from meeting the assumptions of most standard models in finance. In emerging markets, institutions are underdeveloped, participants are strategic and information is scarce. As a consequence, participants trade on insider information and try to learn from and manipulate each other. A growing body of financial research has begun to take these factors into account for Western markets. This course will explore that new literature and seek out applications in emerging markets, in particular, China.

This will be a new course that will cover many disciplines. The pace will be relatively relaxed and necessarily require some flexibility. I expect a lot of discussion and participation since the scope will be broad, and you will know more on many issues than I will, especially in regards to China. Your participation will be very important.

The first phase of the development of this course is the working out of topics. I motivate the course with Wong and Piotroski (2010) “Institutions and Information Environment of Chinese Listed Firms” which describes the effects on market performance of the two features which define the Chinese financial market: implicit bureaucratic control and scarcity of reliable information. Once the Chinese context is established, I will discuss Putniņš (2010) “Market Manipulation: a Survey,” which goes into specific strategies of market manipulation found in empirical studies. This will be followed by Hu & Noe (1997) “The Insider Trading Debate” which surveys the literature on insider trading. I will discuss my field experiment on detecting and punishing insider trading using market forces without government intervention.

This year, I will also introduce a new section on demography. This course will allow you an opportunity to explore the financial market consequences of skewed sex ratios in China, and an aging population for most of the world, as well as the rise of the financial power of women.

While I lecture on these topics, the student’s role is to find an issue of particular interest. The student may choose any area of finance not covered in a traditional finance course and related to emerging markets. The student is required to make two presentations. For the first literature
review presentation, the student with my guidance should find a paper(s) which is (are) closest to their interest which they will present in a ½ hr presentation. See my suggested list below. They will then adapt the methodology of the paper to address an issue of particular interest to the student for the research proposal presentation (½) hr.

_Grading_

Grading will be based upon class participation, a midterm quiz, and 2 presentations:
25% literature review presentation:
45% research proposal presentation and defense, and finding data, data analysis:
15% from midterm quiz on lecture materials.
15% class participation

_Doing Well in the Course_

This is a research oriented course. Research is full of risk. However, I am willing to largely insure you against risk. If your attend, participate, and make an honest effort with your presentations, then, you will definitely pass, and are likely to do ok, e.g., have a grade >80%. Two students who have failed another course like this in the past had poor attendance, did terrible presentations, and one even plagiarized.

_Rules for Course_

Here are things that I've come to expect from students in my classes. I'm sure that you know most of these things already, but I thought I would explain it all at once to avoid case by case corrections.

Turn off cell phones in class and during our office hours discussions. Laptop computers must be closed at all times. I will provide handouts, so there is no need for them. You are required to pay attention in class regardless of whether I or a student are presenting. To encourage you to pay attention and participate, I will often ask you questions. Of course, no sleeping in class.

I will likely be quite free with office hours. However, I will ask that you make notes during and after discussion so I don’t have to repeat things, then to send me the notes through email so we have a permanent record.
Menu of Possible Presentation Topics

Market Manipulation


Clarkson, P.; Joyce, D. & Tutticci, I. (2006), 'Market reaction to takeover rumour in Internet Discussion Sites', Accounting & Finance 46(1), 31--52.


Indjejikian, Raffi J., Lu, Hai and Yang, Liyan, Rational Information Leakage (August 1, 2011).


Smith, N. (2011), 'Herding and Speculation in Experimental Asset Markets',

Tālis J. Putniņš, Market Manipulation: A Survey,


**Insider Trading**


Jiang, H. (2009), 'Three essays on ownership concentration in New Zealand' .


Sureda Gomila, A. & others (2010), 'Essays on the behavior and regulation of insiders', .

Tonks, I. (2010), 'Discussion of To Trade or Not To Trade: The Strategic Trading of Insiders around News Announcements', Journal of Business Finance & Accounting 37(3-4), 408--421.


Social Learning and Herding in Financial Markets


Brunner, C. & Goeree, J. (2009), 'Wise crowds or wise minorities?' .


Chen, G. () 'Herd Induced By Uninformed Traders In Efficient Financial Markets'.


Celen, B. & Hyndman, K. (2011), 'Social Learning through Endogenous Information Acquisition: An Experiment'.


Fahr, R. & Irlenbusch, B. (2007), 'Who Follows the Crowd--Groups or Individuals?'.
Fernández, B.; Garcia-Merino, T.; Mayoral, R.; Santos, V. & Varellado, E. (), 'The Role Of The Interaction Between Information And Behavioral Bias In Explaining Herding'.
Guarino, A. & Jehiel, P. (2009), 'Social learning with coarse inference'.
 Hirshleifer, D. & Teoh, S. (2008), 'Thought and behavior contagion in capital markets'.
Nikandrova, A. (2007), 'Informational Cascades in Financial Markets with Costly Information'.
Stone, D. & Miller, S. (2011), 'Leading, learning and herding'.
Stone, D. & Zafar, B. (2012), 'Do we follow others when we should outside the lab? Evidence from the AP Top 25'.
Tas, B.; Imisiker, S. & Ozcan, R. (2012), 'Price Manipulation by Intermediaries'.
Venezia, I.; Nashikkar, A. & Shapira, Z. (2009), 'Herding in trading by amateur and professional investors'.
Weizsacker, G. (2010), 'Do we follow others when we should? A simple test of rational expectations', *The American Economic Review* 100(5), 2340--2360.

Barasinska, N. & Schöfer, D. (2011), 'Does Gender Affect Funding Success at the Peer-to-Peer Credit Markets? Evidence from the Largest German Lending Platform'.


Erzo, R. & Shue, F. (2010), 'Inferring Asset Quality: Determining Borrower Creditworthiness in Peer-to-Peer Lending Markets'.


Miller, S. (2011), 'Information and default in consumer credit markets: Evidence from a natural experiment'.


Experimental Finance


The political economy of finance

Aivazian, V.; Ge, Y. & Qiu, J. (2005), 'Corporate governance and manager turnover: An unusual social experiment', Journal of Banking & Finance 29(6), 1459--1481.


Campos, N. & Coricelli, F. (), 'Dynamics of financial liberalizations and reversals: Economic and political factors'.


Demetriades, P.; Du, J.; Girma, S. & Xu, C. (2008), 'Does the Chinese banking system promote the growth of firms?', .

Ding, S.; Guariglia, A. & Knight, J. (2010), 'Does China overinvest? Evidence from a panel of Chinese firms'.


**Political Connections**


Cao, J.; Lemmon, M.; Pan, X. & Tian, G. (2009), Political Promotion, CEO Compensation and Their Effect on Firm Performance, in 'AFA 2011 Denver Meetings Paper'.


Du, J.; Guariglia, A. & Newman, A. (2010), 'Does social capital affect the financing decisions of Chinese small and medium-sized enterprises?', *Available at SSRN 1619230*.


Li, O.; Su, X. & Yang, Z. (2012), 'State control, access to capital and firm performance', *China Journal of Accounting Research*. 

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### Financial Market Consequences of Demography

**Aging**


*Gender and Gender Ratios*


Marriage


